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RUEHLH/AMCONSUL LAHORE 4335
RUEHBI/AMCONSUL MUMBAI 1692
RUEHPW/AMCONSUL PESHAWAR 4793
RUEHIL/AMEMBASSY ISLAMABAD 4628
RHEBAAA/DEPT OF ENERGY WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RULSDMK/DEPT OF TRANSPORTATION WASHDC
RHMFIUU/FAA NATIONAL HQ WASHINGTON DC
RUEHRC/DEPT OF AGRICULTURE WASHDC
RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE

UNCLAS SECTION 01 OF 05 NEW DELHI 000721

SIPDIS

SENSITIVE
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USDOC FOR ITA/MAC/OSA/LDROKER/ASTERN/KRUDD
DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, CZAMUDA, RLUHAR
DEPT PASS TO USTR CLILIENFELD/AADLER
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA ABAUKOL
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN
STATE FOR SCA/INS AND EB/TRA JEFFREY HORWITZ AND TOM ENGLE
USDA PASS FAS/OCRA/RADLER/BEAN/CARVER/RIKER

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SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF
March 3-7, 2008

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11. (U) Below is a compilation of Economic highlights from Embassy
New Delhi for the week of March 3-7, 2008.

REACTIONS TO GOI BUDGET MIXED
AMONG AMERICAN COMPANIES IN
SOUTH INDIA

12. (SBU) The announcement of the GOI's budget on February 29 drew mixed reactions from some U.S. companies with major operations in South India. Ford, for example, expects to lose market share because of changes in excise tax. An executive at Ford's Chennai plant told Consulate Chennai that Ford's Fiesta model (considered a medium-sized car in the Indian market) would take a beating if exercise duties went up to 24 percent as envisaged in the budget. Small cars, he said, face only a 12 percent rate. He said he feared that this difference would encourage potential customers to opt for high-end small cars, rather than make the jump to a medium-sized model. Ford India's range has at present no model to cater to the small car market segment.

13. (SBU) Some IT companies, however, applauded the budget, in particular the proposals for increased spending on higher education and an increase in the number of elite Indian Institute of Technology- and Indian Institute of Science-type institutions across India. An Intel India executive told Consulate Chennai that these policies would help ameliorate an expected shortage of highly skilled labor. An IBM executive noted that the reduction in customs duties levied on certain components, like monitors, from 16 percent to 14 percent would help reduce costs.

14. (SBU) Not all IT companies were pleased. A Dell executive told Consulate Chennai that the hike in duties on packaged software from 8 percent to 12 percent would increase the prices of the computers it produces, since it loads the software onto the machines at its

factory. He also noted that he feared that this price increase would also encourage more software piracy.

INDIA CONTRIBUTES MOST
DRUG FILINGS TO FDA

¶5. (U) According to the Business Standard, India made more drug master filings (DMFs) with the U.S. Food and Drug Administration (FDA) than any other country in the fourth quarter of 2007. Of the 187 total DMFs filed, India accounted for 89, versus fewer than 20 from China. India's Ranbaxy made 13 filings, while Aurobindo Pharma and Dr. Reddy's Laboratories made 10 each.

EU-INDIA FTA ON HOLD

¶6. (U) The Hindu reports that negotiations on a free-trade agreement (FTA) between the European Union (EU) and India are on hold and are unlikely to be completed by the original target of the end of this year. The two sides had agreed to exchange proposals late last year, but the timing has been pushed back to at least April, when the EU hopes to have a ministerial meeting with India. The daily indicates that significant differences have arisen over intellectual property rights, competition policy, agriculture, public procurement, and market access.

SAARC ACTIVE ON AGRICULTURE,
TRADE IN GOODS, SERVICES

¶7. (U) India announced at a ministerial meeting of South Asian Association for Regional Cooperation (SAARC) countries this week that it will unilaterally reduce its negative list with respect to South Asia's four least-developed countries--Bangladesh, Bhutan, Maldives, and Nepal--from 744 to 500 items. India also recommended

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that the number of items on the negative list of the South Asia Free Trade Agreement (SAFTA) be reduced to promote greater regional trade in goods.

¶8. (U) On the sidelines of the ministerial meeting, Pakistan's Commerce Secretary Syed Asif Shah told the press that Indian banks will soon be able to open branches in Pakistan and vice versa. SAARC members expect to convene an expert group to negotiate a broader framework for trade in services by June 2008.

¶9. (U) Another expert group of SAARC members is currently meeting (March 5-7) in New Delhi to promote science-based agricultural transformation in South Asia.

UN REPORT: INDIAN PHARMACIES
ARE AN INCREASING SOURCE OF
UNREGULATED DRUGS

¶10. (U) The UN International Narcotics Control Board's 2007 Annual Report released this week stated that pharmaceutical drugs manufactured in India are increasingly being diverted to Western countries, primarily via illegal Internet and mail-order pharmacies. The report cites irregular drug regulation and enforcement as the leading causes. India is the source for approximately 10% of the world's pharmaceutical materials.

SURGE IN DISCOUNT RETAIL

¶11. (U) The past few months have seen a sharp increase in Indian discount retailers. Discount retail currently accounts for Rs.11,880 Cr., approximately 45% of the Indian retail market. An Economic Times estimate suggests it will grow to Rs.26,000 Cr. in the next 3 years. Brand discount retailers typically offer 25-80% discounts year-round.

TATA MOTORS SEEKS \$3 BILLION

¶12. (U) The Financial Times reported Wednesday that Tata Motors is seeking \$3 billion in loans to fund its planned purchase of Ford Motor's Jaguar and Land Rover vehicles, exceeding the estimated \$2 billion purchase price. The company has assigned Citigroup and JP Morgan to arrange the financing. Standard & Poor's said the auto deal would be "a large-scale acquisition for Tata Motors" and could possibly lower its current BB+ credit rating profile.

MAHINDRA TO BUILD ASSEMBLY
PLANT IN US

¶13. (U) Automotive maker Mahindra & Mahindra plans to establish an assembly plant in the US for its utility vehicles. The Hindustan Times reported that the company is in advanced talks with 3-4 US-based companies for sites in the Midwest, making it the first Indian auto manufacturing plant in the US. Mahindra Group president, Pawan Goenka, said that the company would maintain its core focus on SUVs, pick-up trucks, and multi-utility vehicles.

GROWING PRESSURE TO KEEP
OLD AIRPORTS OPEN

¶14. (U) A key Parliamentary Committee added to mounting public pressure from airlines, airline employees, and civic groups with a unanimous vote on Wednesday to keep the existing airports in Hyderabad and Bangalore open. Committee head and CPI(M) leader, Sitaram Yechury, said that the government should suitably amend the clause that facilitates closure of the existing airports.

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Hyderabad's new airport is scheduled to open on March 16 and Bangalore's in late March. The existing airports are slated to be closed the day after operations in the new airports begin. Until now, the Aviation Ministry has been unwilling to modify the 2004 agreement, fearing it would set a negative precedent for future investments.

NEW AIRPORTS' HIGH USER FEES
SPARK CONTROVERSY

¶15. (U) Private airport developers in Bangalore and Hyderabad have proposed charging user development fees (UDF) of Rs.750 for domestic passengers and Rs.950-1,000 for international passengers. Low-cost airlines are strongly opposed to the high UDF and have indicated that they may reduce the number of flights from these locations, saying high fees would raise ticket prices by 33%-50%. The Civil Aviation Ministry has joined the debate, requesting that developers consider charging lower UDF for domestic travelers.

CONNECTING ANDRA PRADESH ...
ONE AIRPORT AT A TIME

¶16. (U) The southern Indian state of Andhra Pradesh is planning to develop eight regional airports, including in the cities of Bobbili, Nellore, Tadepalligudem, Ongole, Kurnool, Kothagudem, Nizamabad, and Ramagundam. The state government will allocate land as its share of the project cost, with the remaining costs having to be borne by the developers. Thus far, 37 companies have expressed an interest in the projects. With the technical and financial bidding for the projects expected to be completed in the next three to four months, the regional airport development projects are likely to be awarded in September 2008. The main bidders for the projects are Reliance Industries, Reliance Airport Developers, Maytas Infra, Unitech, IVRCL Infrastructure Limited, Lanco Infratech, GMR Infra, and the London-based Caparo Group.

MAKING THE KINGFISHER-AIR
DECCAN MERGER VIABLE

¶17. (U) According to media reports this week, Kingfisher's launch of international routes is likely to be delayed, from the earlier proposed target of April/May 2008. The Ministry of Civil Aviation (MOCA) has announced that international service can only begin after the merger of Kingfisher Airlines and Air Deccan is completed, which includes cancelling the license of the former airline. This must take place before the new merged entity will receive the government's blessing for in-principle approval to fly overseas. Also, the new entity must obtain International Air Transport Association (IATA) membership, in addition to clearing a number of other formalities. Meanwhile, the UB Group, Kingfisher's parent company, is moving ahead with plans to cut operational costs of Air Deccan. For example, it has urged the MOCA to allow Air Deccan to withdraw flights on some routes while also limiting frequency of flights on a few sectors in the upcoming summer schedule. According to the new route plan submitted to the aviation authorities, Air Deccan wants to withdraw services on four sectors - Guwahati-Lilabari, Kolkata-Imphal-Dimapur, Kolkata-Agartala-Guwahati, and Delhi-Guwahati-Bagdogra. The airline plans to reduce the frequency on the Kolkata-Guwahati-Imphal route from daily operation to four flights a week. This is likely to raise some resistance from the government, which traditionally has prohibited airlines from withdrawing capacity on domestic sectors to launch overseas flights.

INDIA EXTENDS TARIFF CONCESSIONS
TO LDCS IN SOUTH ASIA

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¶18. (U) At the third South Asian Free Trade Agreement (SAFTA) Ministerial meeting on March 1-3, India declared its decision to prune the negative list from 744 to 500 items (list of items not covered under the free trade agreement for custom tariff purpose) or by almost 33 percent for the least developed countries (LDCs), including Bangladesh, Nepal, Bhutan, and Maldives (as well as Afghanistan after its accession formalities to SAFTA are complete), in the SAARC region. These additional items from LDCs will now enjoy zero custom duty when entering the Indian market. Commerce Minister Nath has said the move is aimed at expanding trade in goods within the region.

¶19. (U) Dr. Nisha Taneja at the Indian Council of Research on International Economic Relations (ICRIER) views the tariff concessions as an initiative to liberalize trade fully in the region and as a trendsetting gesture toward the LDCs, despite the fact that additional market access issues may not result in substantial gains. Dr. R.U. Das of the Research and Information System for Developing Countries (RIS, a research organization on international trade, sponsored by the GOI) told ECON staff that India has already implemented its trade commitments made by Prime Minister Singh at the last SAARC Ministerial Summit in April 2007. He further noted that India, being the biggest economy in the region, is expected to grant tariff concessions beyond the SAFTA forum to the smaller economies, without reciprocity, for better trade cooperation.

¶20. (U) As of January 1, 2008, India has reduced import duties to zero on all items other than those in the negative list for the LDCs. Intra-regional trade among the SAARC countries currently stands at about \$20 billion, which member countries aim to double by 2011-2013. Recognizing the importance of trade in services, SAARC members asked RIS to draft a SAARC Framework Agreement on Trade in Services under SAFTA. The draft agreement has been completed and will be considered by member countries at the next meeting.

DELHI TO HOST GLOBAL MEETING
ON AGRO-INDUSTRIES

¶21. (U) New Delhi will host the first global conference on agro-industries, organized by the Food and Agriculture Organization (FAO), the United Nations Industrial Development Organization (UNIDO) and the International Fund for Agriculture Development (IFAD), from April 8 to 11. The conference will emphasize the role

of agro-industries in economic development and poverty reduction, with particular focus on increasing agricultural productivity in low-income countries. Organizers expect 500 senior representatives from the agro-industry, governments, technical and financing institutions, civil society, and UN agencies to attend and share ideas on opportunities, risks and challenges posed by rapid globalization, market liberalization, and urbanization.

DLF FORWARDS AMBITIOUS
DEVELOPMENT PLAN

¶22. (U) Real-estate titan DLF plans to invest USD 5 billion in building more than 75 hotels and 25,000 total rooms across India, beginning with 4000 rooms by 2010, when Delhi will host the Commonwealth Games. Additionally, DLF intends to invest USD 2 billion in serviced apartments and construct nine super-luxury hotels throughout India, among several other large projects. The cost to build a five-star, high-quality hotel room, including the cost of land and facilities, is USD 100,000 to 125,000. While critics feel DLF may fail due to India's lack of skilled architects and civil engineers, Goldman Sachs, DLF's investment bank, contends that DLF will be able to execute its ambitious plans because of superior management and strategic ties.

POSSIBLE RELAXATION ON
ENVIRONMENTAL CLEARANCES FOR

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INFRASTRUCTURE PROJECTS

¶23. (U) To expedite major infrastructure projects, the Ministry of Environment and Forests is contemplating exemptions from mandatory environmental clearances for modernization projects on airports and ports while continuing to require clearance for greenfield projects, though environmentalists have voiced concern that this would be a step backward for India's already weak environmental laws. Additionally, the GOI may require environmental consultants to register with the Quality Council of India (QCI) to prevent the filing of fraudulent reports to get clearances, but critics question whether the change will prevent fraudulent reports or simply create onerous paperwork. Also, the GOI proposed a common set of standards across states to obtain state-level environmental clearance.

ILO: MORE INDIAN WOMEN JOINING
WORKFORCE, BUT OBSTACLES REMAIN

¶24. (U) According to "Global Employment Trends for Women," a new report by the International Labor Organization (ILO), the percentage of employed South Asian women working on farms fell from 74 to 60.5 over the past 10 years. Additionally, the percentage of women working in factories and mills rose from 11.2 to 18.4, and in services it rose from 14.7 to 21.1. However, the percentage of women in "vulnerable" employment has not declined, with many of the newly obtained jobs in industry and services in the unorganized sector, with less pay and less security than women got before. The report also shows that many South Asian women remain without jobs. Only 34 percent of working-age women have a job, compared to 78 percent of working-age men, and women still suffer from wage discrepancies.

¶25. (U) Visit New Delhi's Classified Website:
<http://www.state.sgov/p/sa/newdelhi>

MULFORD